

Recording Abatements of Expenditures

Abatement of Expenditure

Abatement of expenditure is the cancellation of a part or the whole of a charge previously made, usually because of refunds, rebates, resale of materials originally purchased by the local educational agency (LEA), or collections for loss of or damage to the LEA's property. Abatement of expenditure applies to both current expenditures and capital outlay expenditures from all funds for the current fiscal year. Tuition receipts, fees, and rentals shall not be treated as abatements of expenditure. This definition must be observed in making all decisions as to whether a receipt is to be recorded as revenue or as an abatement of expenditure.

In accounting, the netting of revenues and expenditures is generally avoided. Both revenues and expenditures should be reported in their entirety. It is typically only appropriate to credit a receipt to an expenditure account if not doing so would overstate the expenditure account. Thus, the basic distinction between revenue and an abatement of expenditure is that an abatement cancels a part or the whole of a determinable item of previous expenditure for the current fiscal year. If a receipt cannot be substantiated as a cancellation of a specific expenditure, it must be recorded as revenue.

LEAs may record an abatement of expenditure prior to the receipt of cash; i.e., as an account receivable.

Adjustments between expenditure accounts to correct errors in the distribution of charges are reclassifying entries, not abatements of expenditures.

Accounting Instructions for Abatements of Expenditure

Receipts that represent cancellations of expenditures are accounted for by crediting the appropriate expenditure accounts, thus avoiding any credit to revenue accounts.

Abatements of expenditures must be accounted for by abating the appropriate expenditure accounts during the fiscal year in which the expenditures and receipts occur. Receipts canceling expenditures from a prior year that were not accrued in the prior year must be accounted for as revenue in the current year.

Receipts in excess of the related expenditure must be accounted for as revenue, not as abatements.

Appropriations, apportionments, subsidies, or grants-in-aid from any governmental unit must be accounted for as revenue, not as abatements of expenditures.

Use of Contra Accounts

Whenever abatements of a particular type are numerous, and especially if considerable amounts are involved, credits should be made to a contra account instead of directly to the expenditure account. The contra account should be identified as “Abatements of _____” (the name of the expenditure account to which it relates). It should be maintained adjacent to the corresponding expenditure account in the expenditure (or appropriation) subsidiary ledger. The contra account will receive only credit entries for abatements. Through the use of this procedure, the undesirable features of a “mixed” account are avoided and gross expenditures, abatements, and net expenditures can be determined easily at any time.

Relationship of Abatements of Expenditures to Appropriation Control

Regardless of whether abatements of expenditure are treated as direct credits to expenditure accounts or as indirect reductions of expenditures by the use of contra accounts, budgetary control of expenditures must be in terms of net expenditures. LEAs that anticipate significant abatements of expenditure items should prepare their budgets on the basis of net expenditures and maintain supporting schedules indicating the anticipated gross expenditures and the anticipated reduction of such expenditures by reason of abatements.

Receipts Allowable as Abatements of Expenditures

The following are examples of receipts that must be accounted for as abatements of expenditures if the receipt and expenditure occur in the same fiscal year:

1. Receipts from sales of supplies and new materials at cost (a) to students for personal ownership (e.g., art and shop materials); (b) to students by means of vending machines dispensing articles supplied by LEAs; (c) to PTAs or other school-related organizations; or (d) to other governmental units, including LEAs

Note: Some of these sales may be credited to stores accounts instead of expenditure accounts depending on the local accounting methods employed.

2. Refunds of overpayment from (a) teachers and other employees; or (b) vendors and other payees

3. Refunds for return of containers, oil drums, wire spools, and the like
4. Reimbursement of cost of repairs or replacement of damaged or lost property from (a) pupils, parents, or guardians for loss of books or damage to LEA property; or (b) contractors or any other individuals for damage to or loss of LEA property
5. Refunds from a transportation company for the unused portions of carfare books, tickets, and the like
6. Refunds of gasoline taxes for non-highway use
7. Canceled and voided warrants (not staledated warrants)
8. Sale in lieu of trade-in of used equipment being replaced, such as automobiles and typewriters
9. Refunds of insurance premiums overpaid
10. Receipts of settlements from commercial insurance carriers, JPAs, or self-insurance funds because of building, supply, and equipment losses
11. Workers' compensation payments received by the employee and endorsed over to the LEA that offset all or part of the salary being paid by the LEA to the employee (Also see "Special Considerations Regarding Abatement of Salaries," below.)
12. Receipts from subleasing an unused portion of premises that the district had to rent as a whole in order to obtain the portion desired for school purposes
13. Contributions for health insurance premiums from retirees or former employees who continue their health coverage at their own expense following retirement or termination of their employment

Receipts Not Allowable as Abatements of Expenditure

The following are examples of receipts that are not allowed as abatements of expenditure and must be accounted for as revenue:

1. Tuition
2. Fees
3. Rentals, including collections for the use of swimming pools, tennis courts, and the like
4. Library fines

5. Receipts from the sale of surplus property and equipment no longer needed
6. Donations, contributions, and gifts
7. Receipts from the sale of courses of study, printed forms, and the like
8. Amounts received from forfeitures of bonds or deposits because of noncompliance with contracts
9. Staledated warrants, and warrants canceled in a fiscal year subsequent to year of expenditure
10. Receipts from a teacher training institution for practice teaching services (Also see “Special Considerations Regarding Abatement of Salaries,” below.)
11. Jury Duty fees received by employees and endorsed over to the LEA as a condition of the employee receiving full salary while on jury duty (Also see “Special Considerations Regarding Abatement of Salaries,” below.)
12. Amounts received from another entity for amounts paid to an employee or a substitute while the employee performs services for the other entity (Also see “Special Considerations Regarding Abatement of Salaries,” below.)

Special Considerations Regarding Abatement of Salaries

There are particular payroll reporting issues to consider regarding abatement of salaries. Salary expenditure accounts should never be abated unless:

1. The salary actually paid by the LEA to the employee is being reduced or corrected in the payroll records as well, and/or
2. The payroll reporting responsibility for the salary paid to the employee and being reimbursed to the LEA is being assumed by another entity.

LEAs have a payroll reporting responsibility for all salaries paid to their employees. Unless the payroll reporting responsibility for a particular salary amount is being assumed by another entity, an LEA should not abate a salary account for receipts relating to that particular salary amount. Thus, amounts received by the LEA for Jury Duty stipends turned over by the employee to the LEA, or amounts received from another entity to reimburse the LEA for salary paid to an employee or a substitute while the employee performed services for the other entity, should be recorded as revenue and not as abatements of salaries.

In general, salary accounts in the General Ledger should match gross employee earnings in the payroll history records.